E-Commerce in the Japanese Non-life Insurance Market

Shigeyuki Goto
Mitsui Sumitomo Insurance Co., Ltd

The purpose of this paper is to review the current e-commerce in the Japanese insurance market and to try to find out the key successful factors by clarifying the characteristics of insurance purchase behavior in Japan.

Japan's Position in E-commerce

E-commerce, or business conducted on-line over computer networks, is now an increasingly important mode of business transactions. There seems to be a tremendous potential to improve customer service, reduce costs, enhance productivity, and expand markets. Numerous challenges surfaced in various industries and the insurance sector is not an exception for such a trend.

However the E-commerce situation in Japan seems to still be in an experimental stage. Various trials and errors have been made at this point. Its development varies from industry to industry, depending on consumer purchasing behavior to the particular goods or services.

As insurance is a risk-related service, a business model on the internet must be more sophisticated to fit with insurance purchase behavior. I think it needs more time to become familiar to people and to expand in the market especially for the personal line business.

First, I'd like to review the current situation in Japanese B to B and B to C markets. Then I'd like to be more explicit about B to C and try to draw key successful factors by approaching the mechanism of insurance purchase decision.

General Overview of Japanese On-line Market

Some analysts indicated that the transaction value of non-US on-line markets will be roughly equivalent to that in the US in just four years. The Asia-Pacific region will account for a very significant proportion of that total market.

It is also pointed out that after English, Japanese is the most widely-used language on the internet. The combined population of China, Japan, and South Korea accounts for about 40 percent of all non-English native speakers on the internet today. Considering the Japanese purchasing power, the Japanese play an important role in this area.

E-commerce is a newly emerging market, so there are very few data available. One of them is the online market data based on a joint survey conducted in 1999 by the Ministry of International Trade and Industry (now the Ministry of Economy, Trade and Industry, or METI) and Andersen Consulting (now Accenture). Recently, METI and Accenture came out with a new study which updated these numbers. The new study shows that the predictions for market growth in terms of the value of online transactions is even greater than suggested in the 1999 study.

According to that study, the auto, travel, and real estate industries are expected to be the most significant in transaction value terms by far, yet there are many other B to C sectors which also can anticipate rapid expansion.

Recent Japanese IT Phenomena for E-commerce

As far as IT phenomena are concerned, there have been some new attempts to broaden the availability of DSL, fiber optic network and the recent phenomena of wireless access to the internet (so-called i-Mode and other mobile-enabling technologies). Former Prime Minister Mori declared to create an"e-Japan."The goal is to make Japan the most connected nation, in terms of high-speed Internet access, within five years.

On the other hand, many Japanese consumers still prefer to transact by postal and bank transfers or COD rather than by credit cards. Firms must therefore consider allowing consumer non-credit card payment options if they are to meet the expectations and preferences of millions of Japanese online consumers.

According to the Nikkei Net Business "Internet Active User Survey" (December, 1999), over 50% of online shopping customers use postal, bank transfer and COD, while internet banking is still just used by only 0.2% in 1999.

New banks have emerged or are emerging by specializing or designing to handle

only net transactions, like Japan Net Bank, IY (Itoh Yokado) Bank, Sony Bank and e-Bank. However, there is a reality where roughly 90% of the people who order the goods via the internet drop in at the nearest convenience store to pick them up.

This behavior is closely related with the geographical characteristics of Japan, and of Hong Kong as well. I think the situation where people can easily access real networks in such a narrow land is different from the U.S., China, Finland, etc., where land is vast and people need a car to visit the nearest store.

Distribution Reform

Online commerce, of course, is essentially a form of direct marketing. There is great potential to provide the consumer with convenience —but the middleman is being "simplified out"of this particular equation. In a country like Japan, whose distribution channels are complex, there have been many cases of significant resistance to such change. But now distribution reform has proceeded steadily.

However this is not so simple, because consumers demand convenience, yet at the same time want to preserve the comfortable services which have a more or less human element to them. Therefore each industry has established call centers to compliment online transactions. So distribution reform is in order work how efficiently combine net service with traditional censorious.

Insurance E-C Model

The Japanese insurance market has been deregulated substantially since 1998. Much innovation was introduced into the market and added variety to the marketing 4Ps: Price, Product, Promotion and Place.

Deregulation makes insurance terms and conditions more diversified, which means that insurance companies can provide customers with more flexibility in choices. Insurance companies try to simplify the current complicated contract by re-bundling the coverage and conditions. However, to obtain quotes for insurance transactions, a minimal underwriting process is necessary, where customers are required to provide fairly enough information to the insurer. Direct marketing methodology through call centers or the internet also was

introduced from 1998.

However, information technology enables insurance companies and insurance agents to communicate with the existing and or potential customers through call centers or portal web-sites. Such transactions in the insurance field have just started and share a very small position right now. According to E.M. Rogers' diffusion theory, innovator is estimated in 2.5%, so still direct marketing does not enough penetrate into this group yet.

The internet has evolved from being purely an information and communication medium, to an important distribution channel. Although online transactions are a part of the above direct marketing, its portion is likely to be very small.

Swiss Re analysis draws the following e-business model in insurance fields in the U.S. and Europe, which would almost be applicable in Japan, too.

- Insurance company websites (homepages of individual insurers)
- Product portals (comprehensive standard websites for financial and/or insurance products)
- Aggregators (internet insurance brokers)
- Online risk markets (large risks placed with trading partners)
- Point-of-sale portals (product marketing through various theme-based pages)
- Reverse auctions (auctions of insurance demand).

Topical transactions are listed by model in the table below.

E-business models in the insurance industry

Model category	Business models	Examples (US,EU)	Japan
Insurance company websites	Marketing support	Allstate.com Victoria.de	Hokenstore.com so-dan.com e-cargo
	Online sale of traditional products	Ineas.com GeneraLife.com WebInssurance.com	

		Progressive.com	
	Online sale of specialized Internet products	AnnuityNet.com	
	Online administration	HealthAxis.com Wincolink.ch AIG.com TheHartford.com Chubb.com	
Product portals	Portals for financial services and/or insurance	Wingspan.com Ilife.com	Money Park e-Weather
Point-of-sale portals	Websites linked to specific events	AutoByTel.com BabyCenter.com	Sevendream GAZOO
Aggregators	Independent price comparisons	InsWeb.com Quicken.com Quotesmith.com QuickQuote.com LowestPremium.com EHealthInsurance.com Einsurance.de	ISIZE ehoken Insweb Hokensquare bang AutoBuyTel
Online risk markets	Online markets for exchanging risks or entire risk portfolios	GRX.com CATEX.com CreditEx.com TradeWeather.com	CATEX
Reverse auctions	Insurance clients put their requirements out to tender	insureXL.de	

B to C Market Prediction

The prediction of E-C in Japan with a breakdown of type of goods or services by industry was carried out by MITI and Andersen in January, 2001.

In the finance section, B to C transactions indicated 17 billion yen in 1999 and 404 billion yen in 2004. On the other hand, the EC ratio is 0.5% and 5.0% in 2000, 2004 respectively. These figures are revised by recent survey 0.56% and 6.5% in 2000, 2005 respectively, both of which are revised upward. In 2000 EC ratio is 0.56% for finance, 0.03% for services.

As for B to B, the volume is estimated at 3.8%, 17.5% in 2000, 2005 respectively. However, the above figures include the transaction just replaced papers with EDI, so if that is excluded, the sure e-market place transaction would a small 0.9% among B to B transaction.

The situation is almost the same in the insurance field. The particular insurance automatically followed by a transaction like marine and transportation insurance, or credit insurance, just started to be traded on the internet. However, the e-market place for the

commercial line is not established yet. Therefore I would like to focus on B to C from now on.

B to C Insurance Market Prediction

I presume that the service of non-life insurance is characterized between finance and service, because an insurance service has two aspects -- namely cash reimbursement like the finance sector and claim handling services like the service sector. Actually the EC ratio of insurance would fall between 0.56% and 0.03% in 2000. There is no official data for the insurance sector, so the following figures are our estimate.

Market share of EC is estimated as follows:

- Complete on line transaction 0.0035%, 2.5% in 2000, 2005 respectively.
- Transaction in combination search online and make a contact with traditional channel is 0.035%, 0.27% in 2000, 2004.
- Non-face to face transaction with the customers except the above 2 transaction is 0.8%, 1.06% in 2000, 2004 respectively.

Japanese Insurers' Challenge

Insurance companies have invested in several venture companies in the Internet, Mobile and Digital Data related service business. We invest not only to pursue capital gains, but also to develop the businesses by taking advantage of new opportunities and to construct a new business model.

Followed by the IT revolution, insurance companies have an intention to create a new market segment in addition to the conventional targets of individuals, corporations, and the employees' market.

Their strategy is to provide potential customers with our home page. Through the internet, we offer a community site, and a portal site through which customers can contact the

nearest insurance agents or to provide the goods to the insurance market place and quote a premium to the potential customers.

Looking at examples of how transactions involving automobile insurance policies actually take place on the internet platform, our experience indicates the contract rate for clients who access our postal site and go on to be targeted for marketing activity by agents on the Internet has reached 48% -- much higher than the contract rate for ordinary mail-order sales.

I would even go so far as to say, though it may seem rather extreme, that an amalgam of virtual and real networks will become one of the main means of distribution in the insurance industry of the future.

Insurance Characteristic

Globalization makes the business model more or less standardizing over the world. But at the same time satisfaction, convenience and trust of consumers more or less depend on their culture, basic values and experience up to now.

When we construct e-commerce business model specially in the field of the invisible services, we should pay more attention to the individual mental factor and cultural values. It should result that e-commerce development would be different from country to country and also from sector to sector. An insurance transaction would be a good example.

We should “think globally, act locally” when we think about insurance e-commerce. First we must improve the general infrastructure for e-commerce. Japan, for instance, is a cash dependent society, so we have to build confidence in the payment systems suitable for E-C. Also, psychological factors should be reflected in the marketing on the internet in order to acquire the consumer’s trust for lasting transaction. Our experiment in the insurance field would be aiming towards this.

Why doesn’t an insurance on-line transaction penetrate widely like general goods?

One characteristic aspect of insurance is that the transaction process is more complicated than that of general goods.

Among the financial sectors, insurance is traded less than the other financial sectors like banking or securities. I would like to point out the fundamental differences in the nature

of trade and service of insurance from those of other financial services. First, insurance is not positively to be bought like fashion goods. In addition, an insurance transaction is usually a once-a-year renewal, as in the case of property and casualty insurance. An insurance claim does not happen so often, therefore its transaction does not occur so often like a security trade or bank deposit, draw or transfer service. Drawing from the era of Adam Smith, an insurance is not to be bought and the low probability event is easy to be ignored.

Insurance behavior is frequently cited as the archetypal support for the assumption of risk aversion (e.g., Arrow, 1971; Deaton and Muellbauer, 1980). In particular, people are willing to purchase insurance, thereby paying a *risk-premium* (an amount of money greater than the expected value of their claims) in order to eliminate the possibility of a large loss in the future.

A standard prediction of EU (Expected Utility)-based insurance models is that insurance demand and risk aversion are positively correlated (Schlesinger, 1981, Briys and Schlesinger, 1990).

However when we consider the real purchase process of an insurance, it would be more complicated than the general goods. Because an insurance is one of the means of risk solution in the framework of risk management. The risk solution is largely reflected by the individual values and the subjective risk perception. Therefore its decision making process is complicated.

Accordingly, it is crucial to note that an effective combination of digital transaction and human services (such as face-to-face explanation given by insurance agents) is inevitable to achieve comprehensive customer satisfaction. We could say that this is an innovation of a business environment that brings a new role and a new business opportunity to insurance agents and brokers.

The past experimental study on insurance purchase behavior indicates that people don't follow the archetypal EU theory and for example have a tendency to evaluate the risk of low probability, high severity event lower than actual.

If we cope with one-on-one marketing on-line, it would take a buy time beyond our expectation. This does not fit with the essence of e-business.

Confidence-building measures to speed up the electronic financial transactions penetration

One of the critical factors that could affect the purchasing behavior of our potential clients is

the attractiveness of the website in which the insurance product is provided. Our recent research revealed that the longer the website visitor stays, the more likely that he or she ends up purchasing the product.

One of the most crucial problems to be solved is the development of a feasible payment system. Needless to say, maintaining a sufficient level of security is essential. However, an excessive level of security that imposes mental burden to customers (e.g. requesting too many items for identification purposes) would discourage them to use the website. Therefore, one of our tasks is to develop a payment system balancing both the security aspect and utility aspect. Customers' consciousness on privacy protection is intensifying rapidly. Therefore, such measures like introduction of rigid security system for personal data protection and disclosure of adequate Privacy Policy are getting essential. At the same time, achieving such measures would be competitive advantage as well.

A good combination of digital transaction and human services is crucial to achieve comprehensive customer satisfaction. As a matter of fact, analysis of a successful "dot-com business" revealed clearly that the presence of traditional network (e.g. network of sales representatives) has played a key role in achieving their goals.

Review of empirical study on mental model of consumer insurance decisions

EU (Expected Utility) theory and innovation diffusion theory have previously been applied to insurance decisions. EU theory is the dominant theoretical model of insurance behavior.

According to the EU Theory, individuals are risk averse, a common assumption in the economics literature, is central to von Neumann and Morgenstern's theory of expected utility. Risk aversion means that utility functions for wealth are concave(i.e., $U'>0$ and $U''<0$), so that utility for wealth increases at a decreasing rate.

Three standard EU predictions of insurance demand were examined: 1) demand increases with risk aversion, 2) full coverage is demanded if insurance is actuarially fair—more is demanded if premiums are better than fair, less as the risk premium increases above zero, and, 3) insurance is an inferior good, meaning demand decreases as wealth increases – except for liability insurance which several theorists predict to be a normal good, meaning that demand increases with wealth.

One well-known EU-based prediction is that if premiums include a positive loading, then insurance is an *inferior* good, meaning that demand should decrease with wealth.(A *normal* good is one for which demand increases with wealth.) Recently, models of liability insurance have been developed assuming limited liability. They predict that liability insurance is a normal good, meaning demand increases with wealth, even assuming decreasing absolute risk aversion.

EU theory offers a model of insurance demand that economists often assume is both normative and descriptive. However, there has been relatively little empirical research to test the validity of that model. Results from cognitive psychology and behavioral decision theory lead one to expect consumers' mental models of insurance to differ from those of economists so that their behavior would differ from rational-choice model predictions.

Insurance behavior is frequently cited as the archetypal support for the assumption of risk aversion (e.g., Arrow, 1971; Deaton and Muellbauer, 1980). In particular, people are willing to purchase insurance, thereby paying a *risk-premium* (an amount of money greater than the expected value of their claims) in order to eliminate the possibility of a large loss in the future. Not surprisingly, a standard prediction of EU-based insurance models is that insurance demand and risk aversion are positively correlated (Schlesinger, 1981, Briys and Schlesinger, 1990). Other standard predictions from EU-based insurance models are that demand should increase with the size and probability of possible losses (Beenstock, Dickinson, Khajuria, 1988, Schlesinger, 1981), and decrease with increasing price (Bennstock et al., 1988, Ehrlich and Becker, 1972). In addition, people should prefer insurance for low-probability high-loss events to insurance for high-probability low-loss events of the same expected value (Ehrlich and Becker, 1972; Less and Rice,1965)

The first of several experimental studies related to insurance behavior was by Slovic, Fischhoff, Lichtenstein, Corrigan and Combs, (1977) who ran a series of experiments in which the probability and value of losses was varied over a number of games with constant expected loss. For each game, subjects were asked whether they would purchase insurance. Slovic et al. found that, contrary to standard EU-theory predictions, subjects were substantially more likely to insure against high-probability low-loss events than they were against low-probability high-loss events, whether insurance was fair (i.e., no loading), subsidized (i.e., a negative loading) or carried a risk-premium (i.e., a positive loading). This

was true when the games consisted of hypothetically drawing balls from urns, as well as when subjects played the role of a farmer who faced decisions regarding natural hazard insurance(and other decisions) over several iterations. Like Kunreuther et al., Slovic et al. who proposed that the behavior was consistent with people viewing insurance as an investment. Alternatively, they argued that risk-seeking attitudes for losses, as modeled by Prospect Theory (Kahneman and Tversky, 1979) would explain the observed EU theory violations.

Diffusion models generally predict that a person is more likely to adopt an innovation as he or she knows more adopters. Few adopters are thought to be innovators, adopting independent of others' decisions. *Innovators* are people who adopt independent of the decisions of other people in their social system. *Imitators* are people who feel more pressure to adopt as the number of adopters increases. It is assumed that if a person is aware of an innovation, he or she will eventually adopt.

Mathematical diffusion models typically model the rate of increase in innovation adopters as a function of the numbers of potential and previous adopters. These models may incorporate additional influences such as the mass media, change agents, and economic variables (e.g., Bass, 1969 and 1980; Dodson and Muller, 1978; kalish, 1985; Robinson and Lakhani, 1975). Rogers perspective on diffusion processes is common in the marketing literature where much emphasis is placed on *word of mouth* and the *neighborhood effect*, meaning diffusion within social networks (Mahajan, Muller, and Bass, 1990). That model assumes that adoption is influenced by information sources that are internal (e.g., peers) and external (e.g., mass media, sales people) to a person's social system. It assumes that pressure to adopt increases with the number of adopters in a person's social system. In Kalish's model (1985) where the effect of price on adoption is considered, it is assumed that potential adopters reduce uncertainty by learning more about an innovation from other adopters. With a pro-innovation bias, Kalish assumed that as uncertainty is reduced, the perceived value of the innovation increases; when an individual's perceived value is greater than the selling price, he or she becomes a potential adopter. Potential adopters are then held to adopt at a constant rate per time period. By design, such a model cannot explain rejection of innovations, or why many innovations fail to diffuse.

Kunreuther et al. found that a typical EU model did not predict hazard insurance demand,

while a model based on diffusion theory did. Regression analyses supported diffusion model.

Analyses showed that there was a strong interaction effect between viewing the problem as "serious" and knowing others who had purchased the insurance. Seriousness was, in turn, strongly correlated with experience and weakly correlated with the perceived probability and loss values.

Empirical study did not support the prediction that people decide whether to adopt an insurance innovation based on the decisions of peers. Because insurance decisions are not easily observable, people must talk for diffusion processes to take place through social networks.

However, only one-third of the subjects had ever discussed a recent insurance innovation, limited tort, with peers; Thus, most innovation adopters and rejecters had no idea what decision their peers had made, clearly limiting the opportunities for influence. In diffusion theory terms, people who adopt on their own are called "innovators." Our subjects' ignorance about others' decisions makes most innovators, contrary to the common diffusion theory assumption that innovators are rare. When we probed further, some of the subjects had reported assumptions about peer behavior, rather than actual knowledge. Regression analyses did not support the notion that diffusion processes are largely imitative processes.

A diffusion model like that used by Kunreuther et at. similarly failed to predict adoption of limited tort. One possible reason for these conflicting results might be structural difference in the hazard insurance studied by Kunreuther et al. and the auto insurance studied here.

In 1978, few eligible people owned hazard insurance and insurance agents had "limited economic incentive" to market flood insurance (Kunreuther et al., 1978).

In the 1990's, most consumers (and all of the subjects in this study) own automobile liability and collision coverage, and presumably have had contact with an insurance agent at least once. As a result, potential hazard insurance consumers were unlikely in 1978 to have learned about the option except form peers, while for automobile insurance coverages, peers may be less important information sources.

In summary, the subjects' decision process regarding limited tort bear little resemblance to those proposed by diffusion theorists. Peers appeared to play a minor role.

Instead, consumers based their decisions on beliefs about the costs and benefits of

coverage, and a notion that more is better, subject to budget constraints. Of course those beliefs may be affected by information shared by peers. However, the data here suggested that it is more likely that beliefs are influenced by insurance agents.

Kunreuther et al. concluded, “the principal reason for a failure of the market is that most individuals do not use insurance as a means of transferring risk from themselves to others. This behavior is caused by people’s refusal to worry about losses whose probability is below some threshold... If insurance is brought to their attention, people may view it as a poor *investment* rather than as a meaningful protective mechanism.... On the other hand, suppose the individual views the probability of a disaster to be high enough for him to consider the hazard to be a serious problem. In this case, the potential consequences become important. Then the insurance premium is likely to appear to be an excellent investment.

One objective is to understand whether consumers have a general insurance model, as is usually assumed in theoretical treatments of insurance, or whether consumers’ insurance decision processes depend on the type of insurance in question.

Mental models analyses revealed that people widely use a simple decision heuristic for choosing or rejecting an insurance.
Decision heuristic is not so simple and the measures available did not allow confirmation of the model.

Mental Factor Built in E-commerce Model

In practice, it would be very important to recognize cross-cultural differences of risk perceptions and insurance-purchasing decisions in Japan and other countries.
Our company carried out the survey on cross-cultural differences in Japan and U.S. examined by looking at one common risk, automobile accidents with Carnegie Mellon University.

The reasons to buy an automobile insurance are not always same.

- More Japanese subjects than Americans provided reasons coded as “cover injuries to others “

- No Japanese subjects mentioned reasons categorized under “coverage for damage to self” and “protect from lawsuits”.
- Japanese subjects mentioned reasons related to “reduce worry and/or stress” and concerned with “unspecified financial burdens”, where as almost no American subjects mentioned either category.

Insurance Purchase Decision

To cope with a risk is the matter of decision in choice for the statistical events. In economics this subject has been dealt with in the field of the "decision making theory under the uncertainty". For example, EU theory has been generally accepted as a normative model of rational choice and in accordance with this theory (e.g., Friedman and Savage, 1948), the consumer would like to pay an insurance premium (“risk premium”) in order to make the possibility of the future loss to zero (to prefer any sure outcome). Furthermore, it is shown that the degree of the risk averseness of the consumers is correlated with the demand for the insurance. (Schlesinger 1981). Therefore, the more people are risk averse, the more insurance is likely to be purchased

However in reality consumers’ insurance purchase behavior could not always be explained in accordance with such traditional decision making theory. Kahneman and Tversky (1979) proposed “prospect theory”. The utility function, or the degree of individual preference is very different whether it is in the domain of gains or losses divided from a reference point which an individual has his own in his mind set.

The utility function is convex, implying diminishing marginal utility over gains in gain area (risk averse, same as expected utility theory), where as it is convex over losses in loss area (risk seeker).

It would be difficult to predict the consumers’ insurance purchasing behavior precisely even according to the prospect theory. For example, Kunreuther et al. (1978) conducted the survey in the United States and shows the fact which the consumer didn't want to purchase flood insurance even in the case that insurance premium is lower than the expected loss. And, also it is shown that the consumers don’t have an accurate information about risk (Austin 1996; Hayakawa et al. 2000).

The individuals’ image about risk is defined by the different elements from those of the physical components of risk. Also the image seems to be influenced by the individuals’

values and experience etc. Individuals' risk recognition can be explained with the 2 axes; factors of Dread and Unknown. According to the laboratory studies Slovic et al. reached to the conclusion that people have a tendency to ignore the low-probability less than the certain threshold (in this case high severity) people buy more insurance against moderate or high probability, low loss events than against low-probability, high-loss events. And it indicates the possibility to classify subjects to some groups due to the tendency of the insurance purchase behavior like the group which purchased insurance under all the conditions of the cases, and so on.

In accordance to the general risk management framework, when a consumer faces with the risk, first of all he evaluate the risk subjectively (first step), he chooses one of the following measures ; (1) risk retention, (2) risk avoidance, and (3) risk financing (2^{nd} step). We should communicate carefully with potential customers to help them plan an appropriate insurance program.

Future Challenge

We believe e-commerce is ready to start in Japan, but only a few businesses will survive in each area. Timing is very important. One cannot start service too early or too late considering the proper segment of the market and then after the maturity of the newly market targeting for innovators. Therefore we should watch the change in purchasing behavior.

What we should bear in mind in recent trend is as follows :

- Our continuous surveys indicate that Internet utility weight is increasing to 27.3%(2001) from 19.8%(2000) as an information collecting route. However as an important information source, that weight reduces to 8.5%.
- We interpret that people try to collect information by ways of various routes, but the traditional distribution channels (insurance agents) still dominated when they decide to buy an insurance.
- We conclude that the insurance agents are regarded as neighborhood experts and their advice influences insurance purchase decision making almost 70-80%.

Therefore the effective combination of digital transaction and human services would lead to

comprehensive customer satisfaction and productivity. Furthermore, we pursue the best combination of device, contents and users more and more. For example even though we provide the same contents, the approach should be altered due to the relationship between the device and the feeling and expectation of the user. Re-bundling of human services and digital service and establishment of a suitable one on one business model for individual risk perception would be the future challenge in maximizing customer satisfaction.

Beyond Culture for E-commerce Globalization

Request to the supervision:

- We are informed that currently, some part of the insurance regulatory rules is in the process of revision aiming to lessen ambiguity when applied to electronic transactions. We appreciate such effort of the authorities and expect that appropriate steps will be taken without delay, to promote sound development of electronic finance in the insurance sector.
- We expect that the regulatory authority would take necessary measures to realize fair competition, i.e. to ensure that those business (e.g. product comparison service providers) that are outside the jurisdiction of Insurance Business Law will also be equally regulated as other traditional insurance companies and intermediaries do.
- Since a certain period of time is required for operational and system modification to accommodate new regulation on electronic transactions, it would be very helpful if introduction of such new regulation would be disclosed well before its enforcement.
- Taking into account the fact that electronic transactions usually take place beyond national boundaries, we would expect necessary steps to be taken in order to eliminate any unfairness between domestic and foreign companies. We also feel that cooperation and disclosure between regulators is essential in order to achieve certain level of uniformity among regulations of different jurisdictions.

For the protection of policyholders and potential policyholders it is important to establish the security of concluding contracts on the internet. However as the security level increases, the convenience of transactions lessens. Unfortunately the two factors are in trade-off relations. Insurance is a risk-related product, so we should avoid reverse selection and insurance fraud.

It is also against the convenience of the transaction which is wanted by the customers on the internet. We should adjust appropriately these trade-off factors. For that reason, transparent and practical framework of rules and regulations for internet transaction should be established.